

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7097**

**BILL NUMBER:** HB 1258

**DATE PREPARED:** Jan 20, 2002

**BILL AMENDED:**

**SUBJECT:** Health Facility Reimbursement.

**FISCAL ANALYST:** Kathy Norris

**PHONE NUMBER:** 234-1360

**FUNDS AFFECTED:** X

X

X

**GENERAL**

**DEDICATED**

**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill requires the Office of Medicaid Policy and Planning (OMPP) to: (1) apply to the federal Centers for Medicare and Medicaid Services for an amendment to the State Medicaid Plan to implement certain health facility reimbursement changes; and (2) authorize the collection of a licensing fee of \$6 from each health facility for each patient day; and provide for the deposit of the fee into the Eldercare Trust Fund. The bill specifies how a health facility's annual licensing fee shall be calculated, depending upon whether the facility participates in the state Medicaid program.

It also requires the state's rate setting contractor to: (1) use the most recent completed year when calculating medians and provider rates; and (2) calculate the median for each rate component each quarter using all cost reports received by the state within a specified time frame.

**Effective Date:** Upon passage; October 1, 2001 (retroactive).

**Explanation of State Expenditures:** *Nursing Facility License Fee:* This bill would authorize a \$6 per patient day nursing facility license fee for all nursing home beds in the state. The bill requires that the proceeds of the licensing fee be used to enhance reimbursement to nursing facilities. If the funds cannot be used for this purpose, they are to be returned to the facilities that contributed them. The bill specifies that the license fee funds may not be used to reduce or replace the amount of state money that is being paid to the nursing facilities as of January 1, 2002. OMPP estimates that the license fee would generate a total of \$94 M; including \$4.6 M from non-Medicaid nursing facilities. If these funds can be used to leverage federal Medicaid reimbursements, the nursing facilities are to receive an additional payment of \$247.4 M from the Medicaid program. Medicaid reported incurred claims of \$825.6 M for FY 2001; this would constitute a 30% increase in the program payments. This increase would have a neutral impact on the state General Fund. The bill specifies that the fee may not be assessed until the nursing facility rates have been adjusted and the new higher rates are being paid.

*Impact on the State Veterans' Home:* The Veterans' Home is licensed by the State Department of Health for 350 comprehensive care facility beds and 105 residential beds. The Veterans' home would fall under the definition of

facilities required to pay the general bed licensing fee. It is estimated that this would result in increased annual expenditures for the Veterans' Home of approximately \$600,000 in state General Funds. The Veterans' Home is not a Medicaid-certified facility and would realize no refund of this expenditure under the rate provisions of the bill.

*Prohibition Against Repealing or Amending Rules:* The bill would also prohibit OMPP from repealing or amending the existing nursing home reimbursement rule without statutory authority if it would result in a reduction of payments to nursing facilities. The bill also voids several proposed rules changes that are currently in the promulgation process. It is estimated that this provision would result in a continued cost to the state of \$26.9 M. (These are savings that are included in the OMPP *Medicaid Balanced Budget Plan*, but would not occur as a result of this bill.)

*Consideration of Cost Reports in Case-Mix Reimbursement System:* The bill also requires the state's rate-setting contractor for nursing home case-mix reimbursement to calculate the median for each case-mix component each quarter using all cost reports received by the state or the state's rate-setting contractor within 150 days after each provider's fiscal year end. This provision will, at a minimum, require faster action by the state's rate-setting contractor, and it will likely affect state costs for nursing home reimbursement (See below).

*Background:* The above provision effectively alters the methodology for calculating reimbursement rates by basing the new rates on the most recently completed cost reports provided by nursing facilities, rather than on the prior year's cost reports. In either case, in the calculation of the new rates, the nursing facility cost data would be projected forward by the HCFA/SNF index, an index computed by the Centers for Medicare and Medicaid Services (CMS, formerly HCFA). This is an index much like the Consumer Price Index, except that it measures the historical change in nursing facility costs instead of the costs of consumer items.

Generally, to the extent that the HCFA/SNF index is a good predictor of the allowable costs reported by Indiana nursing facilities, the impact of the change caused by this provision would be minimal. However, if actual Indiana costs rise faster than the nation's costs, as measured by HCFA/SNF, the calculated reimbursement rates to nursing facilities will be higher than they would otherwise be. The impact *for each percentage point* of actual Indiana cost increases over the HCFA/SNF index is estimated by industry sources to range from \$8.3 M to \$12.5 M in total Medicaid expenditures *on an annual basis* (or \$3.15 M to \$4.75 M *in state costs*). Conversely, if the actual Indiana costs rise slower than the HCFA/SNF index, the change in the methodology resulting from this bill would result in reduced Medicaid expenditures.

Based on an analysis by one industry source of the change in allowable nursing facility costs using 1998 and 2000 cost data, if these specific conditions were to repeat, total Medicaid expenditures would be projected to increase by \$12.9 M (or \$4.9 M *in state costs*). Again, the amount and direction of the impact will depend on the relationship between changes in actual Indiana nursing facility costs and changes in projected costs.

The bill also may effectively require the rate-setting contractor to use cost reports "as submitted" before an audit can be completed on those reports. According to Myers and Stauffer, the state's rate-setting contractor, this could also have an indeterminable impact on Medicaid expenditures.

**Explanation of State Revenues:** Medicaid is a federal- and state-funded entitlement program. For every dollar spent on qualifying services in Indiana, the federal program reimburses the state about 62%.

#### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** There are currently six county-owned nursing facilities participating in the Medicaid program that may have their reimbursement rates affected by this bill.

**State Agencies Affected:** Family and Social Services Administration, Office of Medicaid Policy and Planning; State Veterans' Home.

**Local Agencies Affected:** County-owned nursing facilities.

**Information Sources:** Amy Brown, Legislative Liaison for the Family and Social Services Administration, (317) 232-1149; Evelyn Murphy, Director, Long-Term Care Program, OMPP: *Combined Medicaid & CHIP Incurred Claim Budget Forecast for the 2002-2003 Biennium*, December 19, 2001., and the *Medicaid Balanced Budget Plan*, January 4, 2002., Office of Medicaid Policy and Planning; Kris Knerr, Myers and Stauffer, 846-9521; Steve Albrecht, Indiana Health Care Association, 636-6406.